Approaches to Economic Development in and After the Current Downturn

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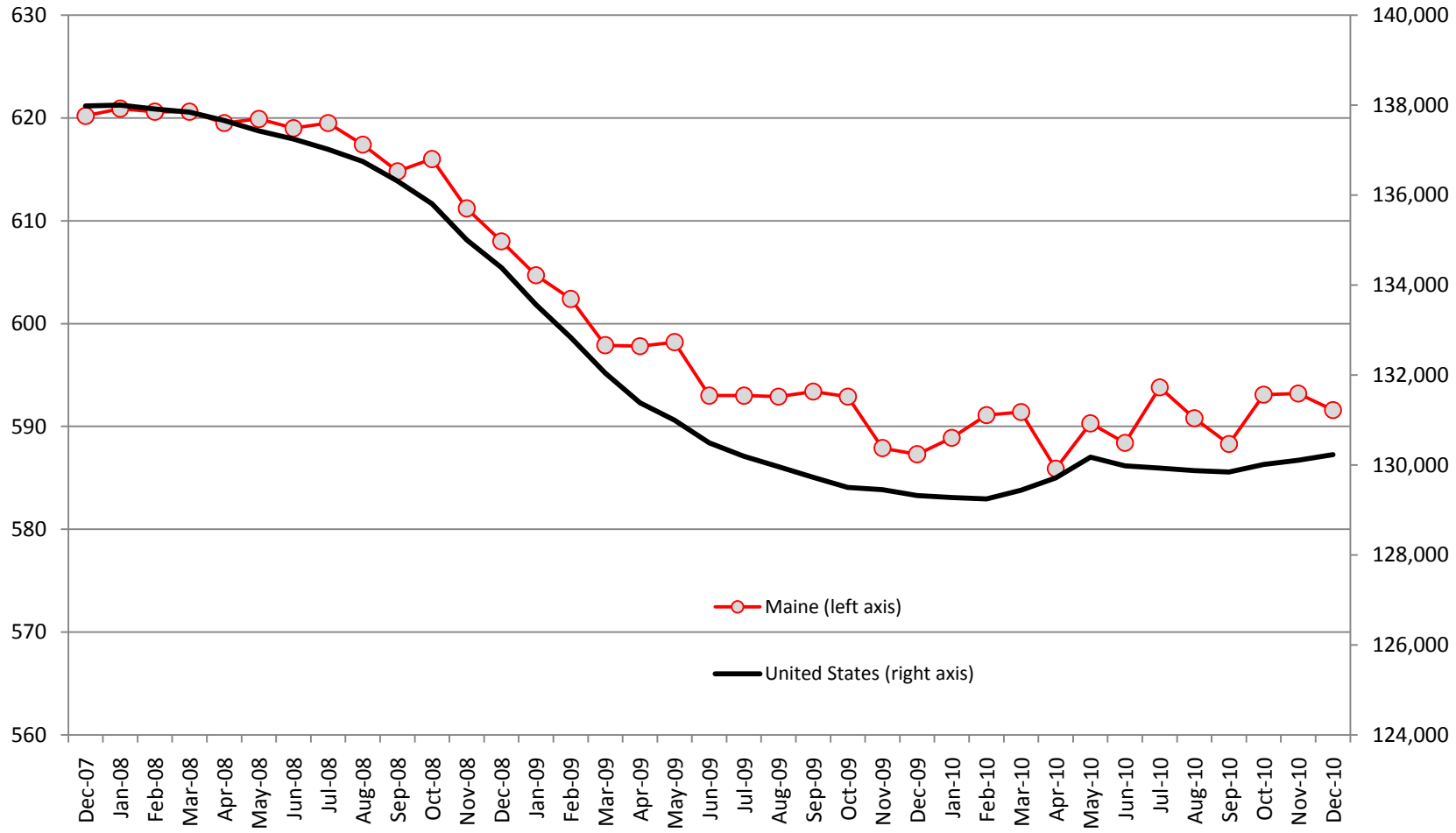
Overview

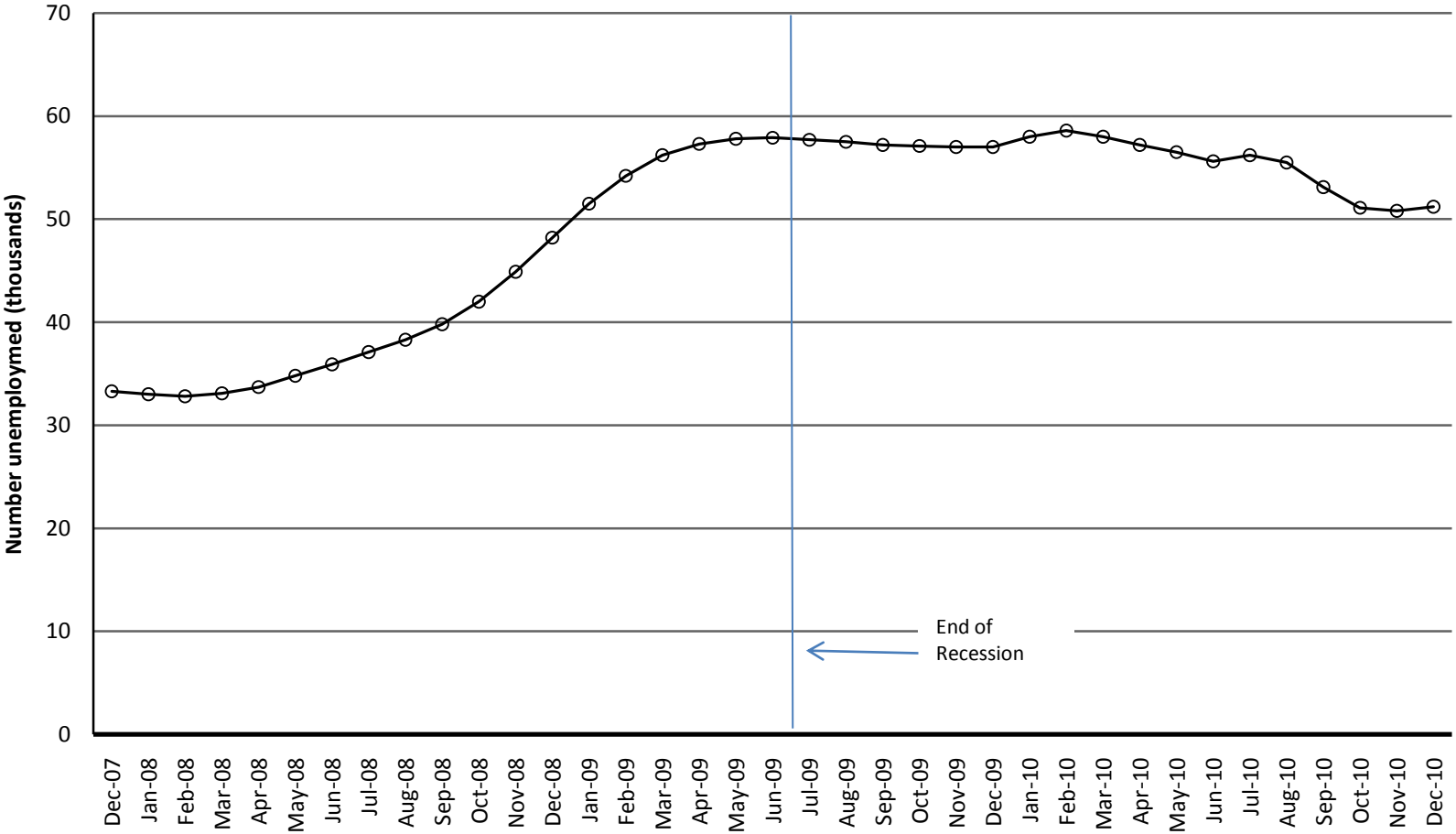
1. The jobs landscape
2. Details of the downturn and the space for the public sector to respond
3. Alternatives Approaches to Economic Development
   - -Infrastructure
   - -Skills
   - -Tax incentives

Deep Job Losses and a Shaky Recovery

Employment Levels (in thousands)



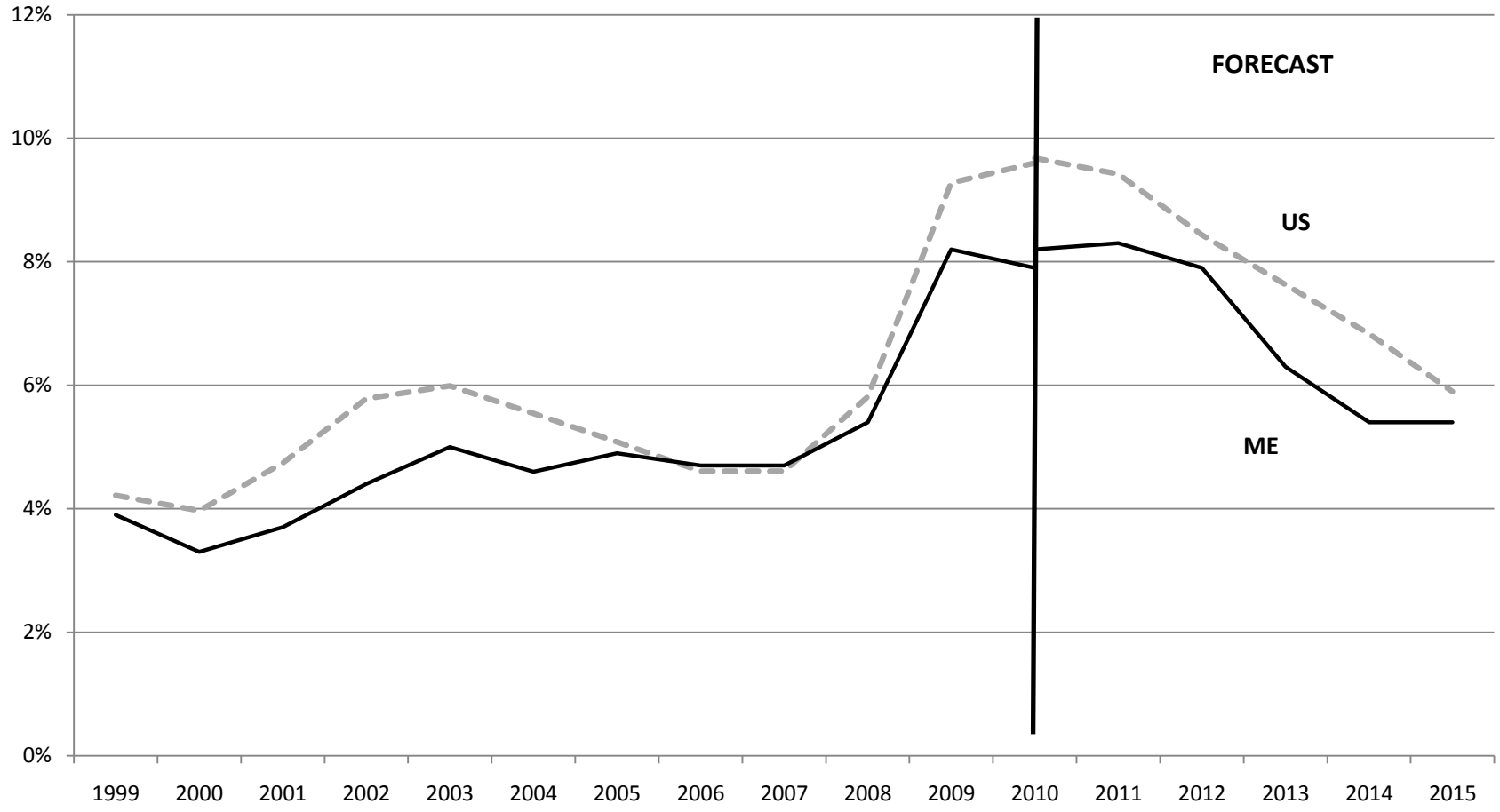
Maine Unemployment Remains High



Reason for Moving to a Different County or State

- **Main reason among 30-64 year olds**
  - **Job-related** - 35.5%
  - **Family-related** - 21.6%
  - **Housing-related** - 27.9%
  - **Quality of life** - 8.1%
  - **Other** - 7.0%

A Slow Recovery Ahead:
High Unemployment for Several More Years



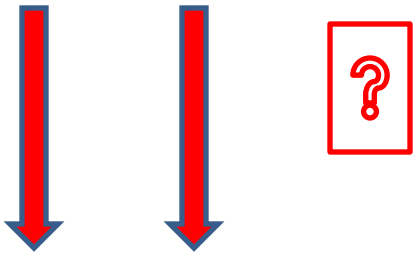
What Can Be Done?

- There are real limits to state policy
  - Balanced budgets
  - No monetary or trade policy
- Maine continues to face budget shortfalls

  - But, the Role for the public sector remains fundamental.

What is a recession?

Economy = C + I + G + (X-M)



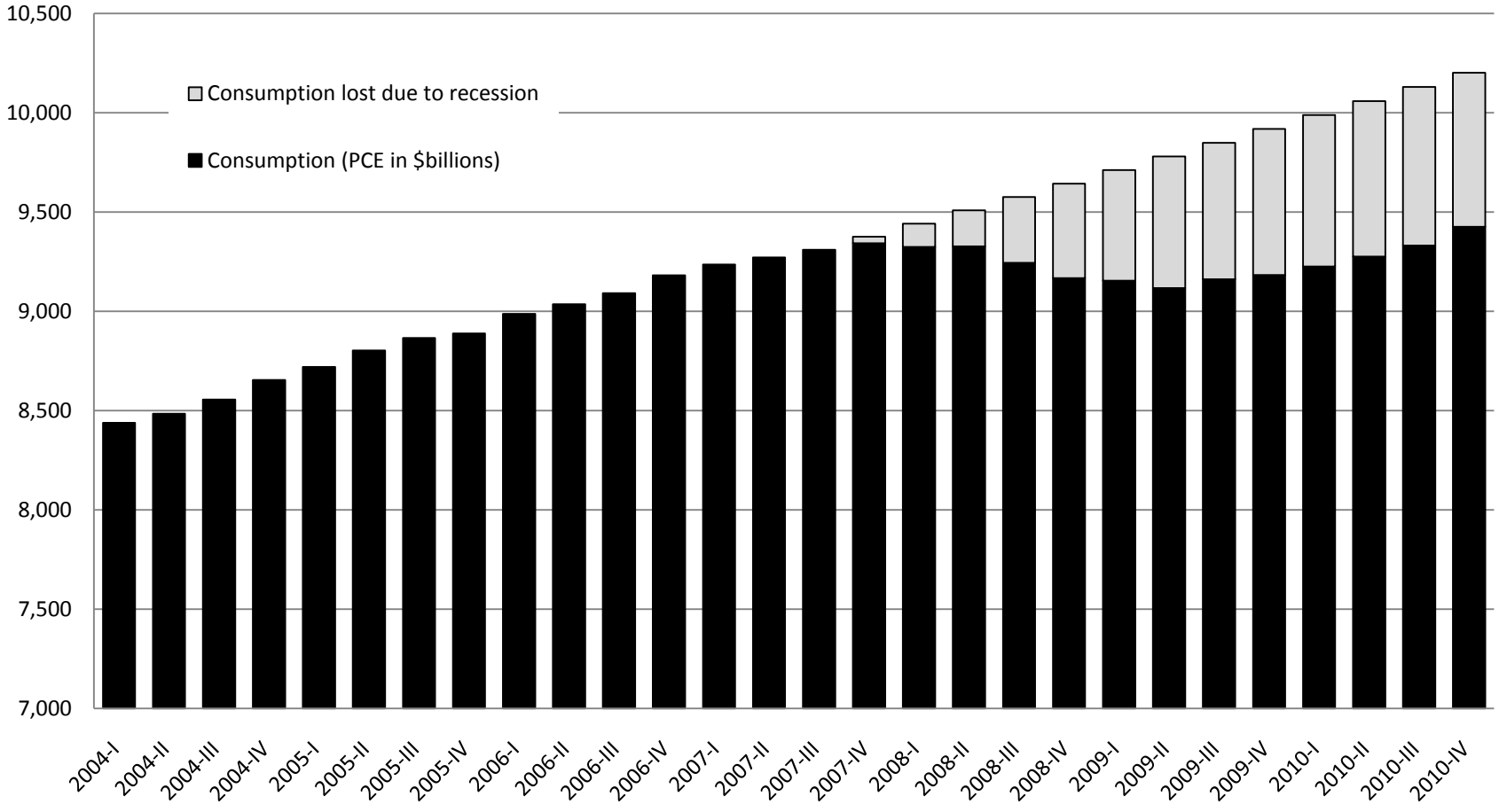
Consumption

Investment

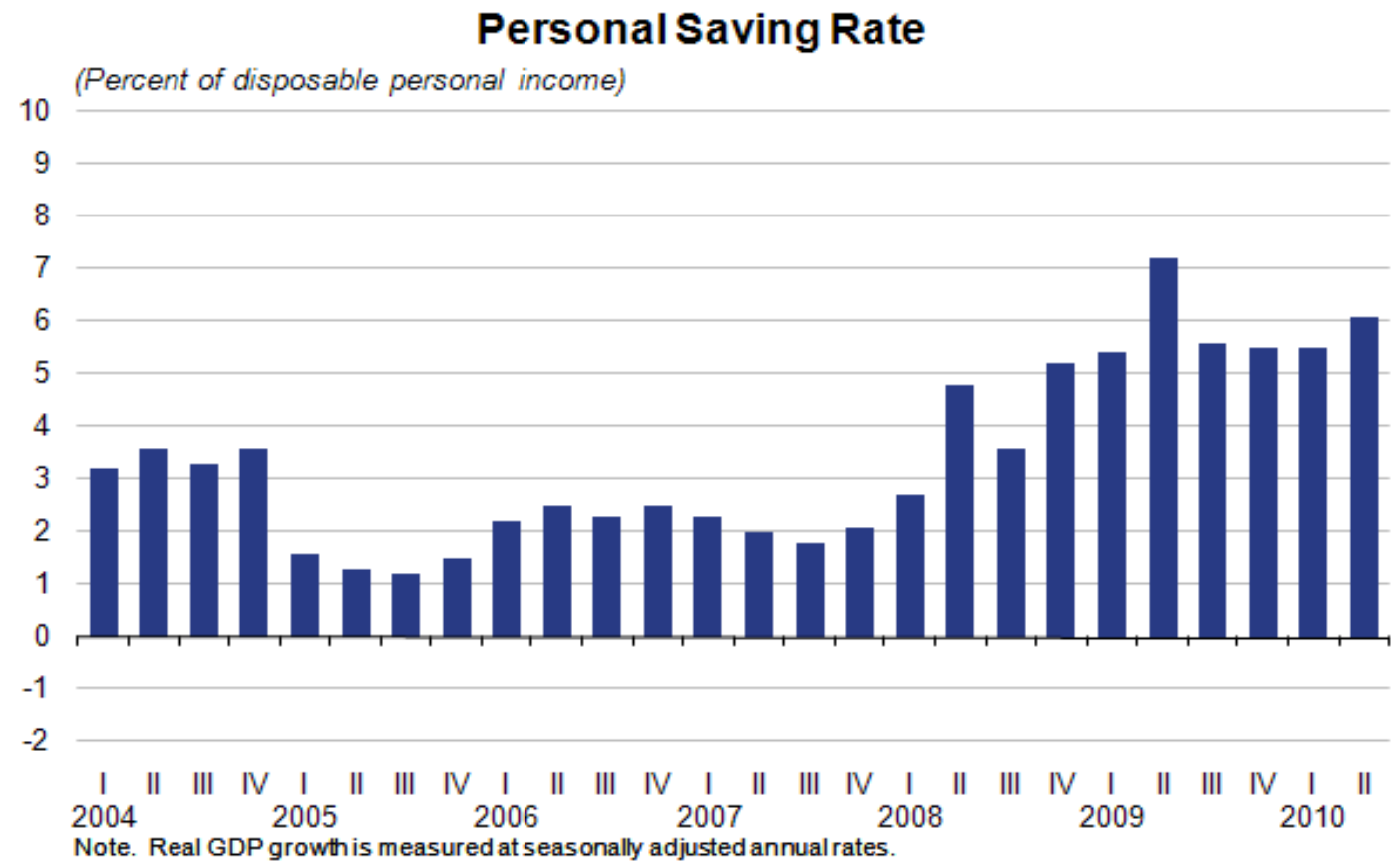
Government

E**x**ports, I**m**ports

Consumption Fell Hard and Remains Down

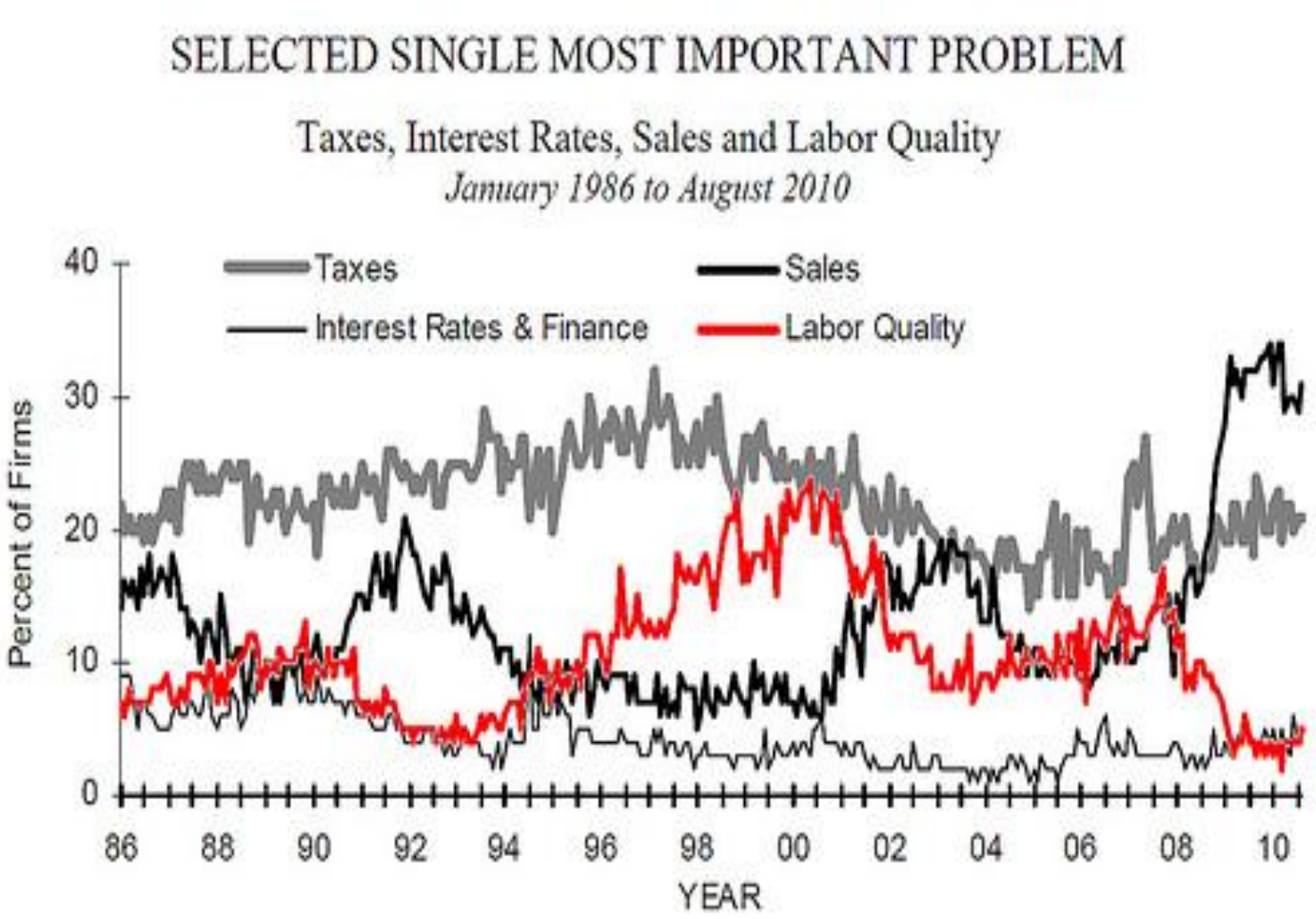


Saving has climbed

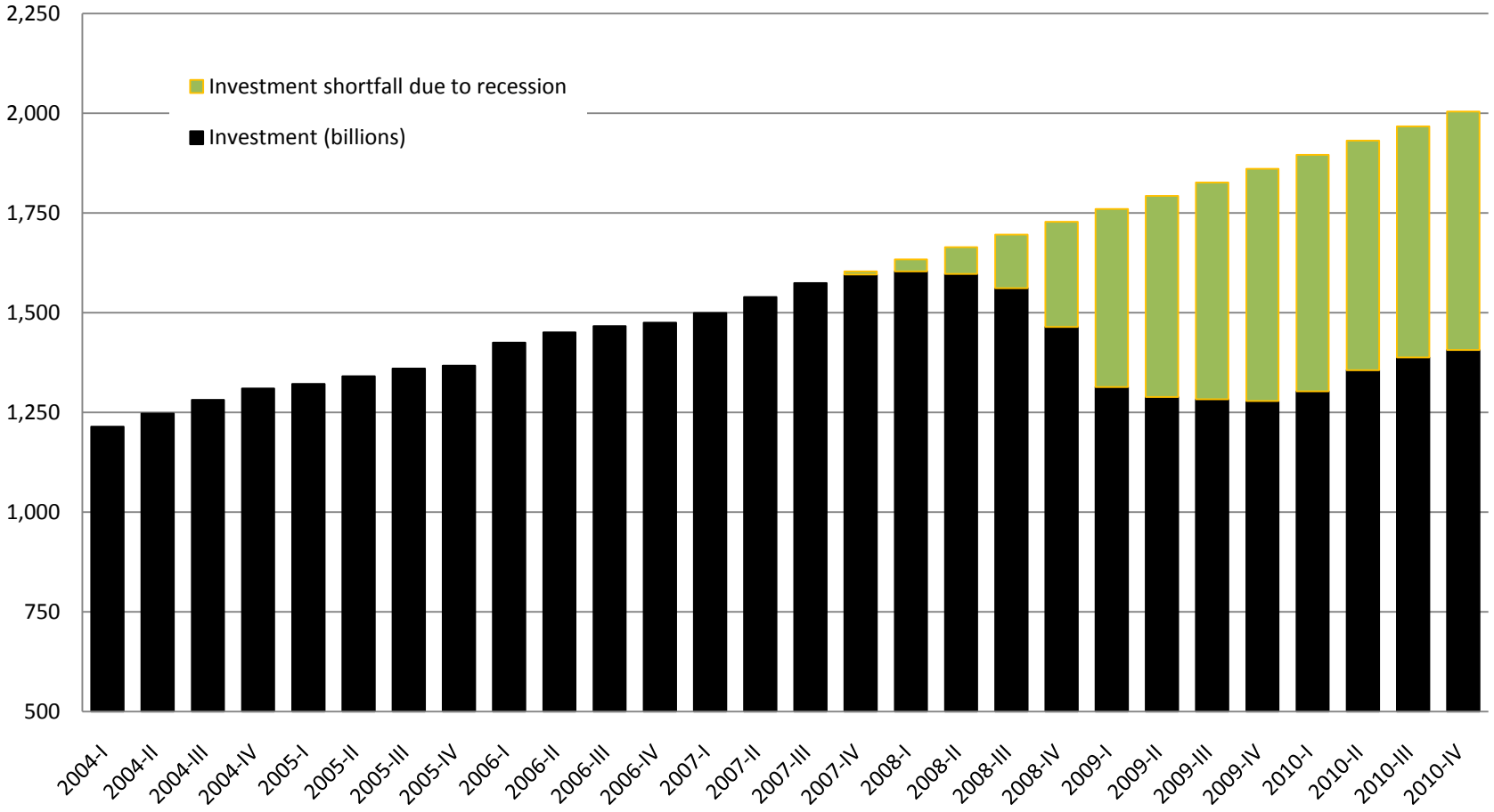


U.S. Bureau of Economic Analysis

Demand is the Problem

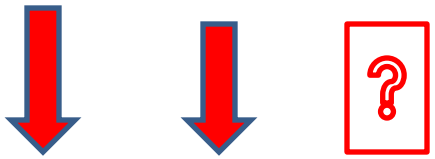


Business Investment Still Lags



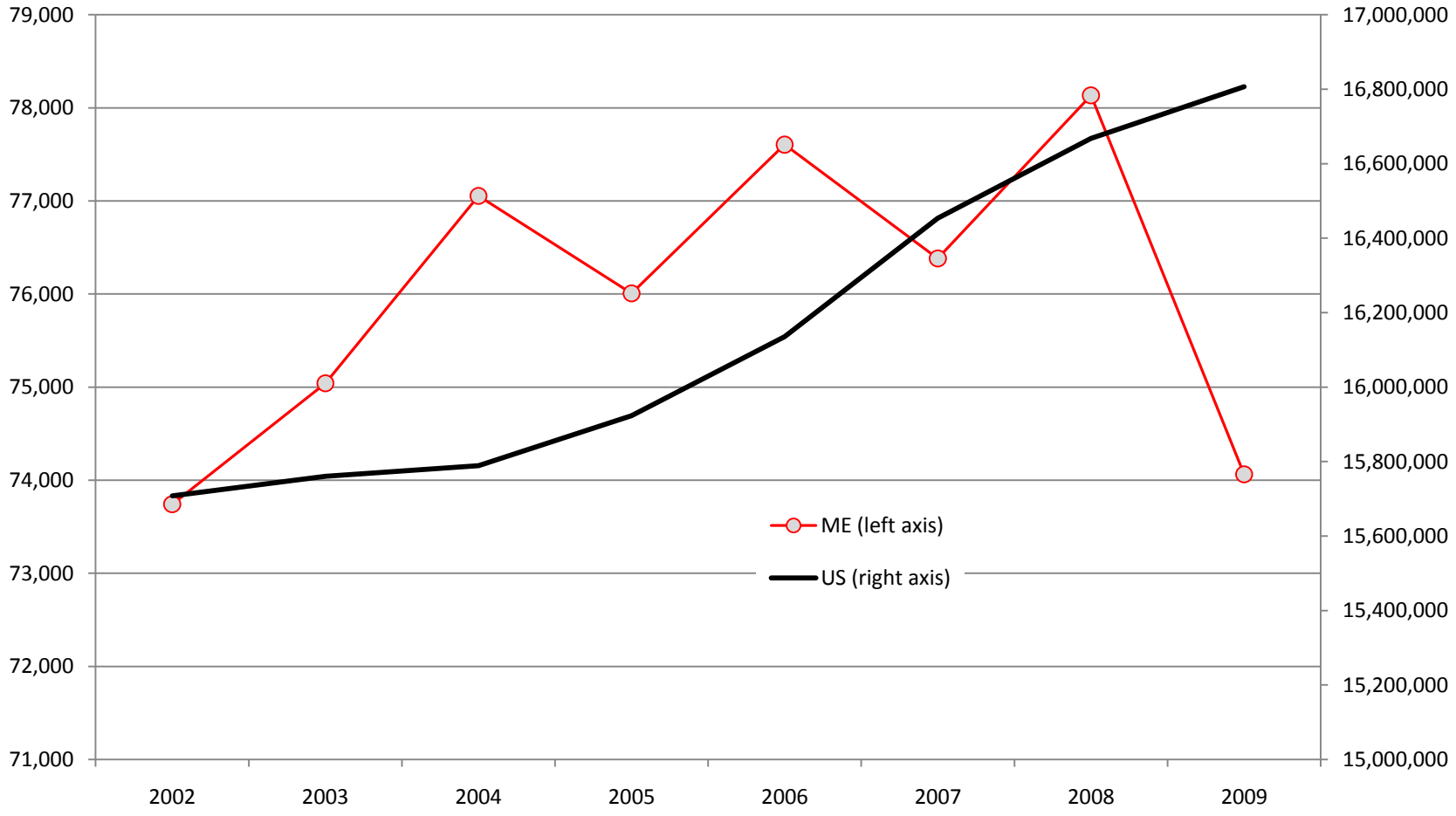
What Role Will Public Sector Play?

$$Y = C + I + G + (X-M)$$



- So, what about "belt-tightening?"…
  - Government spending sustains the economy in recession
  - No "crowding out" with 9.5% unemployment 75% capacity utilization
- Will the public sector push back against the business cycle, or will it fuel it?

Public Sector FTE Employment



State Economic Policy

- Alternatives:
  - Investing in infrastructure
  - Investing in education
  - Tax incentives
- Near term objectives:
  - Create jobs
  - Keep budget balanced
- Long-term objectives:
  - Raise standard of living
  - Maintain attractive climate for households & businesses

1. Infrastructure

- Roads, bridges, tunnels, ports, sewers, dams.
- S&L investment (2008)
    - New Eng. - $11.5 billion
    - 42% of all infrastructure investment
    - Maine - $710 million in 2008; $760 million in 2007
- **Short-term**: jobs created building, repairing, supplying, and designing the project
- **Long-term**: reduce costs to workers and firms, create new opportunities

2. Short-term job gains prospects

Table 4. Employment generated by State Infrastructure Investment Projects

	Total Jobs per $1 million in state financing with federal contribution	
	Federal Spending at 80% of Total Project Cost	Federal Spending at 1/5 of Total State and Local Spending (Average for 2004)
Connecticut	46.5	14.1
Maine	61.0	18.5
Massachusetts	48.2	14.6
New Hampshire	53.8	16.3
Rhode Island	48.2	14.6
Vermont	59.4	18.0

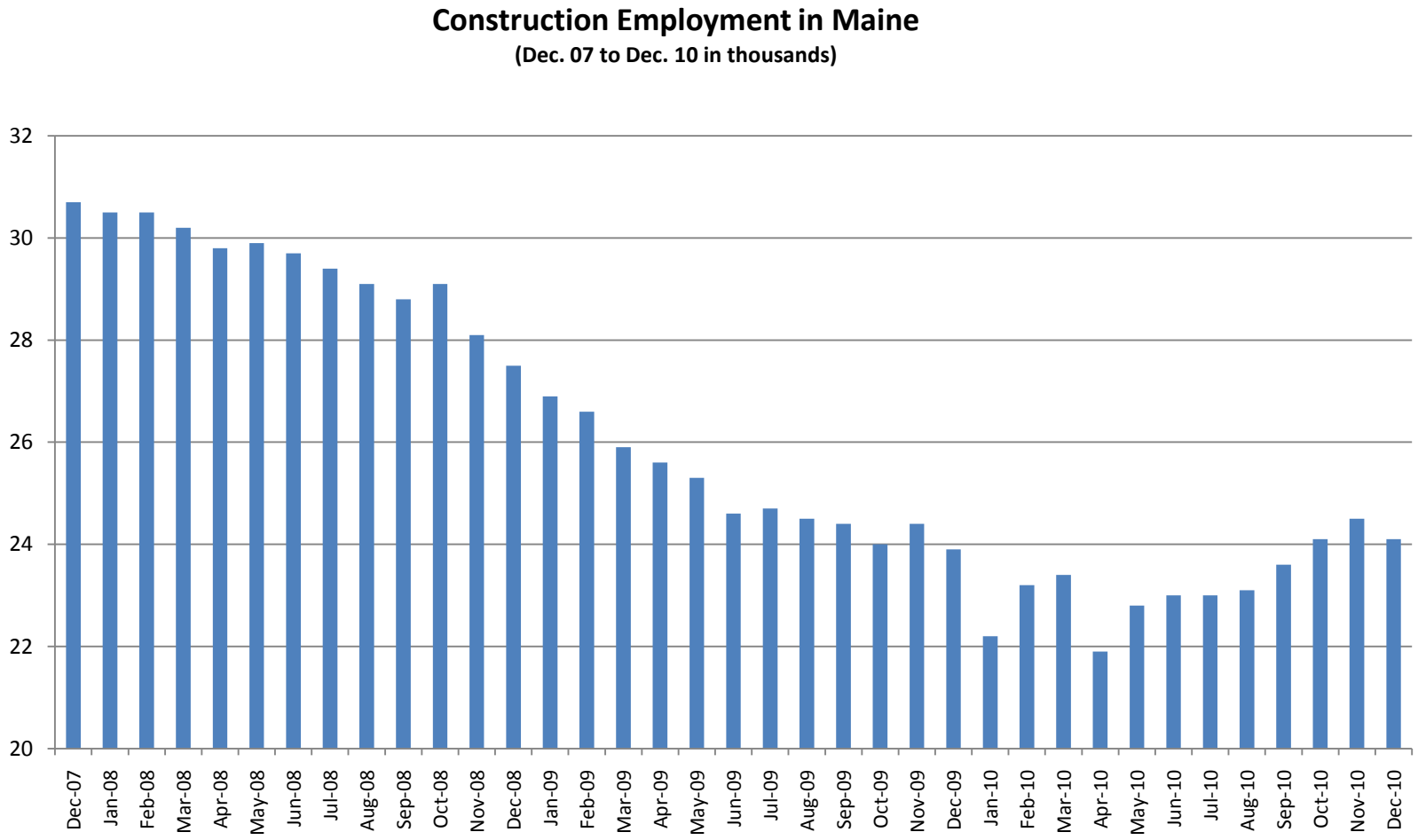
Note: State and Local investment includes infrastructure spending on buildings, roads, computer equipment, etc.

Source: PERI and IMPLAN 2007

3. Infrastructure Needs in Maine

- 33% of bridges structurally deficient or functionally obsolete (USDOT)
- 29% of major roads in poor or mediocre condition (ASCE)
- $960 million drinking water infrastructure upgrades (20-year need) (EPA)

4. Available workforce



5. Evidence for long-term impact

– Reduces manufacturing-sector costs by over 2%, and increases demand for production workers by 4-5%. (Based on 10% increase)

– Increases economic output by 1.2 percent.

1. Education, skill-building

- K-12, community colleges, 4-year universities, early childhood education, workforce training programs.
    - 185,000 students at 670 public K-12 schools.
    - 48,000 public higher education students.
- **Short-term**: employing teachers & other staff; bringing unemployed into training programs.
- **Long-term**: improve workforce skills, increase business productivity, facilitate innovation, make the area more attractive.

2. Short-term job creation

Jobs Per $1 million in Education Spending & Taxes to Finance It in Maine

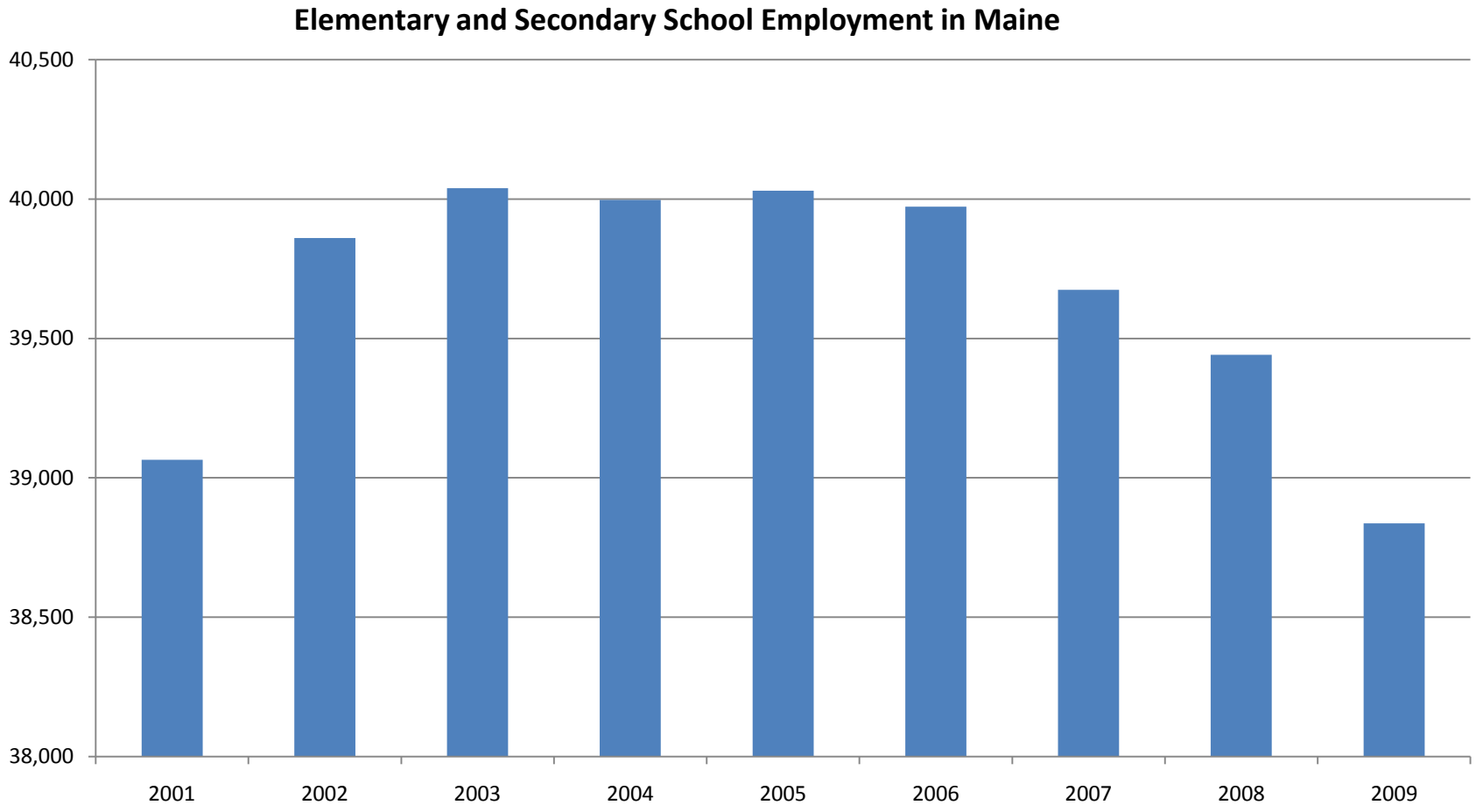
	Total Jobs
Education Spending	31.5
Early Childhood Spending	38.4
Total Jobs Lost per $1 Million Increase in Income Taxes Paid by Affluent Households ($150k+)	6.2

Source: PERI and IMPLAN 2007

3. Needs and opportunities

- K-12 funded at national average, but:
  - 2,600 dropouts (4.4%);
  - 79% freshman completion, and;
  - 20-22% of 8th graders below basic levels in reading and math.
- Higher ed. appropriations average, but among highest tuition.

4. An available workforce

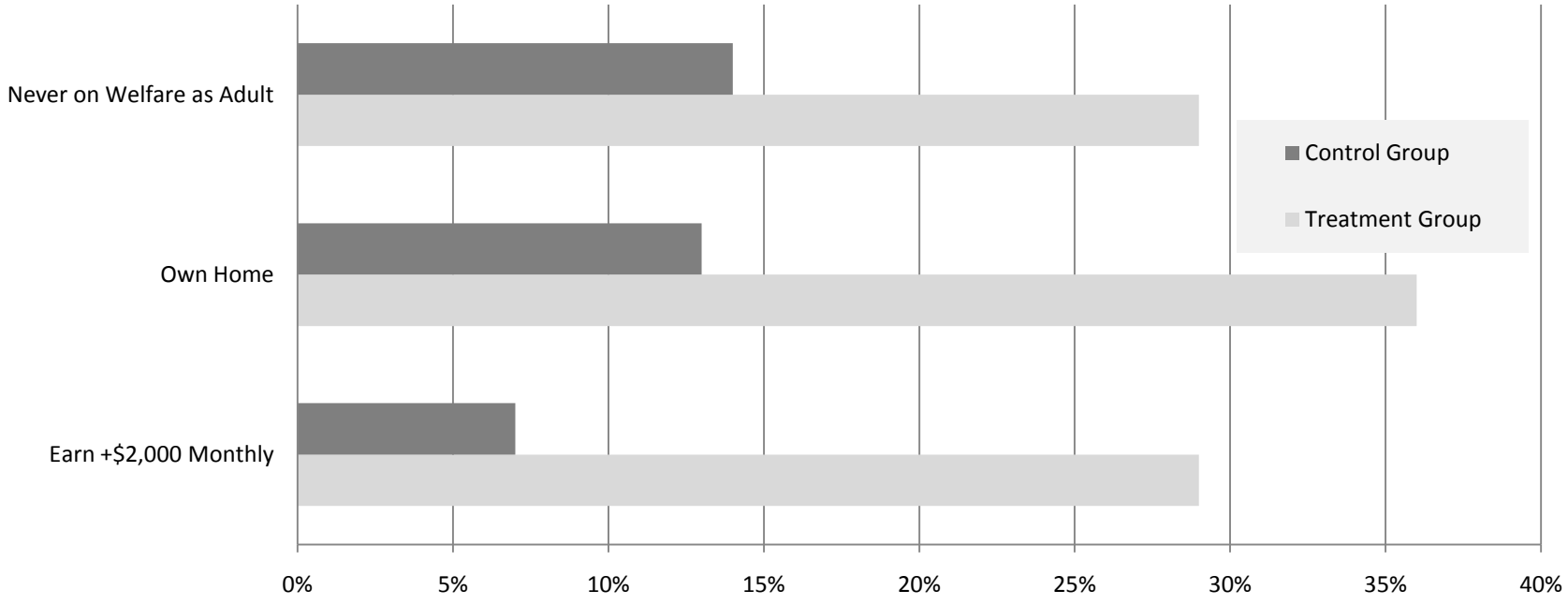


5. Evidence for long-term impact

- Comprehensive high school reform boosts graduate earnings by 11-17% (Career Academies – Kemple & Willner, 2008)
- Customized training program have saved and created thousands of MA jobs at less than $9,000 per job (Hollenbeck, 2008)
- High quality early childhood education increases high school graduation, employment, wages, and more. (Schweinhart et al, 2005)

6. Economic Impacts

Perry Preschool Program: Economic Effects at Age 27, by Treatment Group



Source: Barnett (2004). *Updated through Age 40 using recent Perry Preschool Program data, derived from self-report and all available state records.

7. Education Reform Impacts

Education Reform details					
		Program Cost per Student	Total Ed. Cost per HS graduate	Benefit/Cost Ratio	NPV*
FTF	comprehensive HS reform, small learning communities, dedicated teachers, family advocates, curriculum/instruction improvements	$5,493	$59,066	4.4	197,599
CPC	Pre-school, parental involvement, health/nutrition services.	$4,728	$67,714	3.8	188,951
PPP	2 years high quality pre-school, home visits	$12,532	$90,694	2.8	165,971
STAR	4 years of k-3 with class size dropped from 25 to 15	$13,075	$97,373	2.6	159,292
*NPV uses 20-years and a 3.5% discount rate					
Source: Levin et, al (2007)					

8. Tax Incentives Vs. Universal Pre-School

Table 9. State-by-State Estimates of Long-Run Effects of Universal Preschool and Tax Incentives, National vs. State Perspective

	Jobs				Additional Annual Cost of Universal Pre-School or Equivalent Tax Incentives (millions of 2004$)
	State Perspective (only one state adopting the policy)		National Perspective (all states adopting the policy)		
	Pre-school	Tax Incentives	Pre-school	Tax Incentives	
Maine	8,396	3,880	11,735	815	55
New England	92,859	43,532	132,216	9,180	875
United States	1,882,870	847,995	2,546,076	176,779	14,662.2

Source: Bartik, 2006, Tables 21, 23 and 24